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INTELLIGENCE MEMORANDUM

THE LONG-TERM PLAN FOR POLAND: A PRELIMINARY EVALUATION

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CENTRAL INTELLIGENCE AGENCY

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THE LONG-TERM PLAN FOR POLAND: A PRELIMINARY EVALUATION*

Summary

For the first time since 1956 the economic situation in Poland is sufficiently favorable and the political situation is sufficiently stable to take a long-range view of the economic prospects of that nation. The views of the Polish government and of Polish economists and technicians as to these prospects are indicated in the recently published Five Year Plan (1961-65) and in information on the so-called perspective plan for the longer period 1961-75.

The planned rate of economic growth over the entire period 1961-75 is moderate by Communist standards. The following increases are scheduled: 5.8 percent for national income, 7.1 percent for industrial production, and 2.7 percent for agricultural production. The rates of growth planned for national income and for industry are lower than in past years and decline during the period of the plan. Heavy emphasis is given in industry to chemicals (particularly organic chemicals), electric power, and certain branches of machinery; in agriculture, to production of meat, milk, fruit, and vegetables; and in transportation, to automotive transport, electrification of railroads, and the merchant marine. Improvements are planned in services and trade through large increases in employment in these sectors of the economy.

The goal of the Polish economy which is given the most prominence is the raising of living standards to the present levels of Western Europe, and there is evidence that the present intention is to assign a much higher priority to consumer-oriented production than in the period before Gomulka headed the government. Living standards will no longer be raised by means of a crash program, as during 1956-57, but rather at a lower rate determined primarily by the long-term development of the national income. A sharp rise in investments combined with a shift in position from a large net deficit to a net surplus on current transactions with foreign countries is expected to keep the growth of consumption below that of the national income during 1959-65. After 1965, however, consumption is planned to increase slightly faster than the national income.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 1 February 1959.

The steady growth planned for consumption and the progressive exhaustion of opportunities for cheap gains in production will be the principal factors causing a declining rate of economic growth in future years. Outside of machine building and part of the ferrous metallurgical industry, most Polish industrial plants are now being utilized at or close to full capacity so that increases in production will require substantial investments. Similarly, many of the gains planned in agriculture and transportation require large investment, and, in addition, it is planned that the share of investments allocated for purposes not directly productive such as housing and communal facilities will increase. Although improvements in technology and organization and less irrational policies toward agriculture and handicrafts than under the Six Year Plan (1950-55) could have a favorable effect on production, political considerations probably will prevent Poland from making full use of its potential in these areas.

The structure of the long-term plan reflects the close association of Poland with the Soviet Bloc in several respects. It appears to provide for very little development of private enterprise outside agriculture, retaining state control over the bulk of economic activity; it promotes the growth of certain industries which are highly dependent on the raw materials and markets of the Soviet Bloc; it involves a commodity structure of foreign trade which would make a further shift in Poland's trade to the West very difficult. On the whole, however, the plan probably can be justified in terms of Poland's own economic advantage, and it appears to reflect the best judgment of the Poles themselves as to the economic prospects of their country under existing circumstances.

Although several parts of the plan will be very difficult to fulfill, even under the most favorable conditions, the plan does not appear to be unrealistic in its basic characteristics. Moreover, given certain political limits, the plan seems to offer a reasonable approach to economic growth and to raising living standards.

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1. Introduction.

The purpose of this memorandum is to sketch the general lines of future development now envisioned for the economy of Poland. Considerable information has been released recently on two long-term plans for the Polish economy: the Five Year Plan (1961-65) and the so-called perspective plan for the period 1961-75. Although the targets for 1975 (which differ somewhat in various reports) are, of necessity, much more indefinite than those for 1965 and have not yet received governmental approval, the forthcoming Five Year Plan appears to be generally consistent with the perspective plan, and therefore can be viewed as a stage within the latter plan. Because the goals of the plan are preliminary and probably will be changed many times, the conclusions of this memorandum are highly tentative. To some extent, however, the present outlines of the plan may be used later as a basis for determining possible future changes in the economic policy of Poland owing to domestic considerations or to Soviet pressure.

Among the reasons for the formulation of a long-term plan for Poland at the present time are the need to coordinate national plans under the Council for Mutual Economic Assistance (CEMA) and the hope of the Polish regime that setting long-range objectives will help the party rank and file to regain a sense of purpose and to raise its morale. Even more important, perhaps, is the fact that an improved economic situation in Poland now makes realistic, long-term planning possible. Between the end of 1955 and Gomulka's accession to power in October 1956, Polish economic policy had become increasingly disorganized as the government was forced to make important concessions to consumer demands at a time when shortages of raw materials and power were becoming more and more severe and earnings from traditional exports were falling. The plan for 1956-60 underwent successive revisions, each incorporating a further paring down or postponement of planned investments, with the result that investment remained nearly constant for several years while consumption was growing faster than the national income. Because of large-scale foreign credits and various domestic measures, notably the liberalization of agricultural policy, the promises of the Gomulka regime to consumers had been made good, for the most part, by the end of 1957. Inflation had been halted, and some improvements had been effected in the structure of production and distribution. A number of serious problems, which cannot be solved rapidly, remain -- the housing shortage, which continues to worsen, insufficient productive capacity and obsolescent equipment in the light and food industries, and generally low productivity and poor organization in most branches of industry, construction, and trade -- but the problem of low urban living standards is no longer as pressing, and the shortage of raw materials has been eased considerably. The details of the long-term plans will be revised, and possibly changes will be made in certain essential respects. For example, although the present draft of the plan assumes increased cooperation under CEMA, inconsistencies between the plan for Poland and those for other countries of the Soviet Bloc will have to be ironed out later. Nevertheless, enough information is now available to determine the direction and general characteristics of the future economic development of Poland, as envisioned by the Polish regime.

2. Characteristics of the Long-Term Plan.

The principal goal of the long-term plan, according to official Polish pronouncements, is attainment in Poland by 1975 of the present living standards of Western Europe. In view of past experience in Poland and other countries of the Soviet Bloc, one cannot take for granted that consumption will be treated as the end of economic activity in the actual operation of the plan, but there are many indications that a substantial growth in consumer welfare is considered necessary to insure domestic stability and justify the Communist regime in Poland. Official statements and economic policies actually followed since October 1956 indicate a widespread belief in Poland that a very unbalanced pattern of growth and strain on resources such as existed under the Six Year Plan (1950-55) cannot be maintained for long; that these policies would create too great a waste of resources and must be followed by a lengthy period of readjustment; and that they create strong popular dissatisfaction which, if it does not lead to open rebellion, tends to hamper the growth of labor productivity and to weaken the influence of the Communist Party. To avoid these difficulties in the future, the Polish regime probably will attempt to promote a steady growth of consumption in the long run. In relation to 1956-57, however, the priority of consumption will diminish, for to continue to allocate the entire increase in the national income to consumption would soon cause a sharper decline in the rate of economic growth than the regime is willing to accept, and this lower rate of economic growth would result in less consumption later on.

Connected with the increased importance of consumer goals in comparison with the Six Year Plan is a new concept and method of planning. The Six Year Plan was not a complete plan of economic development; primarily, it set targets for priorities in key economic sectors (for example, in metallurgy and machine building), and all efforts were directed to reach these targets with little regard for other parts of the economy. In effect, most consumer and some raw material sectors received what was left over after the priority areas had been supplied, and established plans for these sectors often were completely ignored. These policies were feasible because reduced consumption did not affect immediately labor productivity and also because of the large amount of excess capacity which could be put to use when investments in areas supporting priority production fell short of plan. In the future, however, increases in production generally will require new investments; compensation must be paid to induce greater worker effort, and tight management of resources is necessary to ameliorate the difficult balance of payments position, so that errors in one part of the plan are likely to impinge severely on the other parts.

Under the direction of Michel Kalecki, an internationally known economist, the long-term plan appears to have been established by projecting such variables as national income by origin and use, the supply of investments and their effect on fixed assets, the supply and distribution of labor, and estimates of production of key commodities believed to be consistent with both demand and technical possibilities. It represents an effort to establish a plan as internally consistent as possible.

3. Major Production Goals.

a. National Income.

Poland's long-term plan calls for a rapid but declining rate of economic growth. The rate of growth of the national income is projected at about 5.8 percent a year after 1960, excluding direct services. If direct services (education, health, administrative, military, and personal services of all kinds) were taken into account, this rate probably would be reduced to between 5 and 5.5 percent.*

The planned rate of growth of Poland's national income is slightly higher at the beginning of the 1961-75 period than at the end (6.2 in 1961-65 compared with 5.2 percent in 1971-75) and considerably lower than that expected in 1956-60 (7.1 percent). (See Table 1.**) On a per capita basis, the projected rate of growth for the entire period would be about 4.2 percent a year.

b. Industry.

Primarily responsible for the decline in the rate of growth of national income is industrial production, the yearly rate of growth of which falls from 8.9 percent during 1956-60 to 6.2 percent during 1971-75. For the entire period 1961-75 the rate of growth is to

* It should be noted that these projections were calculated from estimates of value added in the individual branches and sectors in constant 1956 prices. Because the prices of those goods whose production increases more than average tend to fall more (or increase less) than average, a higher measure of growth tends to be obtained with 1956 weights than with the weights which might result from the price structure of a later year. Historical measures of growth in most countries usually are calculated with either a late base year or from linked indexes each with a different base year. For purposes of comparison with historical measures of growth, therefore, the planned measure for Poland should be deflated somewhat.

** Table 1 follows on p. 6.

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Table 1

Indexes of National Income of Poland, by Sector of Origin a/
Selected Years, 1950-75

Sector of Origin	Index (1960 = 100) 1950	1955	1965	1975	Indexes for 5-Year Periods b/ 1951-55	1956-60	1961-65	1966-70	1971-75
Industry and handicrafts	42 c/	65	145	280	153	153	145	143	135
Agriculture and forestry	72	81	115	148	113	123	115	113	113
Construction	41	70	154	273	170	143	154	134	132
Transportation and communications	41	72	129	192	176	138	129	126	119
Trade	44	62	139	271	140	161	139	142	137
National income	52 c/	71	135	233	137	141	135	133	129

a.
b. Index base is the year before the beginning of each 5-year period -- for example, in the index for 1951-55, 1950 equals 100.
c. Adjusted.

average 7.1 percent yearly. As is indicated in Table 2, the actual and planned rates of growth of Polish industry do not differ substantially from the rates achieved in a number of countries of Western Europe between the end of the postwar recovery period and 1956.

Table 2

Yearly Rates of Growth of Industrial Production in Selected Countries, by Period a/

Country	Period	Rate of Growth
West Germany	1952-56	10.3
Austria	1950-56	9.8
Greece	1951-56	9.5
Italy	1950-56	9.4
Netherlands	1949-56	7.4
Finland	1949-56	7.2
Norway	1949-56	7.2
France	1949-56	6.7
US	1949-56	4.0
UK	1949-56	3.8
Sweden	1949-56	3.0
Poland	1951-55	9.6
	1956-60 (revised plan)	8.9
	1961-75 (plan) b/	7.1

a. . Except for Poland, the first year of the period is the year following the attainment of immediate prewar peaks or the year 1948.
b. Derived from Table 3, p. 9, below.

The structure of the planned growth of industrial production is illustrated in Table 3,* which presents indexes by broad industrial branch, and in Table 4,** which shows the goals for selected commodities in physical units.

Among individual industries, the highest goals are assigned to chemicals -- a 3.4-fold increase in 15 years. Great emphasis is being given to the development of large-scale organic synthesis based on coal tar, and eventually also on petroleum derivatives. This development would require the construction of large and expensive facilities including petroleum refineries. Raw materials from coal (that is, mostly byproducts from coking) are available in quantity, but petroleum will have to be imported, probably from the USSR. On the basis of a strong organic chemical industry, Poland hopes to produce a wide range of items (synthetics, plastics, pharmaceuticals, and the like), many of which are consumer goods and which will tend to reduce import needs for cotton, wool, and other materials that now encumber Poland's balance of payments. Plans call also for a considerable expansion of basic inorganic chemicals, chemical raw materials such as sulfur, and chemical fertilizers needed to increase agricultural production.

A rapid increase in the production of machinery and metal products also is called for, although the rate of growth of this industry will be less than half what it was during 1951-60. The intention apparently is to produce higher quality goods than before and also fewer types of certain products, with a view to reducing costs and improving Poland's competitive position in world markets. Among the products expected to be developed rapidly are machine tools, automotive equipment, ships, certain types of electrical equipment, agricultural machinery, and consumer durables. Backing up the machinery program and the rapid growth of construction, the metallurgical industries are planned to grow at a rate somewhat less than the rate for all industry and also much more slowly than in 1951-60. High prospects are entertained for the production of aluminum and quality steels and for improvements in the assortment of rolled products.

The planned rate of growth of construction materials lags slightly behind the planned rate of growth of construction. In line with the experience of other countries, increased use is to be made of wallboard, concrete products, and other items which, in the long run, are less costly than bricks. Less wood will be available because of deforestation, but the degree of processing of wood will rise considerably.***

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* Table 3 follows on p. 9.
** Table 4 follows on p. 10.
*** Text continued on p. 12.

Table 3

Production Indexes for Branches of Industry in Poland a/
Selected Years, 1950-75

	1960 = 100			Yearly Rates of Growth	
Branch of Industry	1950	1955	1975	1951-60	1961-75
Electric power	35	62	298	11.1	7.5
Fuels	77	91	150	2.7	2.7
Ferrous metals	44	69	212	8.5	5.1
Nonferrous metals	42	84	255	9.1	6.4
Machinery and metalworking	22	48	296	16.3	7.5
Chemicals, rubber, and salt	25	53	450	14.9	10.5
Nonmetallic minerals	33	59	230	11.7	5.7
Wood	39	76	277	9.9	7.0
Paper		76	175		3.8
Textiles and clothing	59	76	201	5.4	4.8
Leather and shoes	26	62	160	14.4	3.2
Fats and cosmetics	51	70	197	7.0	4.6
Foods		70	207		5.0
Total industry	41	65	280	9.3	7.1

a. Socialized industry only.

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Table 4

Production of Selected Industrial Commodities in Poland
Selected Years, 1957-75

Commodity	Unit	1957 a/*	1960 (Revised Plan) b/	1965 (Plan) b/	1975 (Plan) c/
Electric power	Billion kilowatt-hours	21.2	28.1	41.5	85.0 d/
Hard coal	Million tons	94.1	103.0	111.5	135.0
Brown coal	Million tons	6.0	9.6	27.0	40.0 e/
Crude steel	Million tons	5.3	6.4	8.8	11.7 f/
Zinc	Thousand tons	159	170	200	240
Aluminum	Thousand tons	20	23	70	120
Metal-cutting machine tools	Thousand tons	26	32 g/	40 g/	60 g/
Automobiles	Thousand units	8	20	37	200
Seagoing ships (over 100 dead-weight tons -- DWT)	Thousand DWT	147	270	440	N.A.
Sulfuric acid (100 percent)	Thousand tons	499	668	1,060	1,800
Nitrogen fertilizers (nitrogen content)	Thousand tons	201	270	480	N.A.
Artificial and synthetic fibers	Thousand tons	60	83	148	N.A.
Plastics	Thousand tons	25 b/	55	152	350
Cement	Million tons	4.5	6.7	10.0	17.8
Wall materials	Billion ceramic units	4.7 b/	6.8	9.5	15.5 g/

* Footnotes for Table 4 follow on p. 11.

Table 4

Production of Selected Industrial Commodities in Poland
Selected Years, 1957-75
(Continued)

Commodity	Unit	1957 a/	1960 (Revised Plan) b/	1965 (Plan) b/	1975 (Plan) c/
Paper and paperboard	Thousand tons	526	632	810	1,340
Cotton fabrics	Million linear meters	580	665	790	1,110
Wool fabrics	Million linear meters	76	84	100	132
Leather shoes	Million pairs	30	38	41	63 g/
Sugar	Thousand tons	1,059	1,200	1,500	1,848

a. Unless otherwise indicated.
b. Unless otherwise indicated.
c. Unless otherwise indicated.
d.
e.
f.
g.

The relatively low rate of growth of light industry probably reflects a planned shift in the composition of raw materials from agricultural materials, mostly imported and then processed entirely within light industry, to chemical materials to which light industry often adds only the last stage of processing. Part of what was formerly "light industry," therefore, is in fact being shifted to "chemicals." The projected growth of food processing is about double that of agricultural production, indicating a high increase in the degree of processing basic materials.

In spite of a 180-percent increase in total industrial production planned between 1960 and 1975 and an attempt nearly to double transportation, the output of fuels is to rise only 50 percent and that of hard coal only about 30 percent. Domestic requirements for fuel are to be met through the partial electrification of railroads; the restriction of exports of hard coal to the present level of about 16 million tons a year; the rapid development of brown coal deposits; and the import of large amounts of crude petroleum for automotive transport, the merchant marine, and diesel locomotives. By using brown coal to an increasing extent, production of electric power is planned to increase faster than total industrial production in order to promote the modernization of economic activity and particularly the growth of chemicals and related sectors which use large amounts of power.

c. Agriculture.

The planned growth of agricultural production (2.7 percent a year, or about 50 percent in 15 years) is higher than that achieved in 1951-55 but lower than that expected for 1956-60. Fulfillment of agricultural plans would require an increase of approximately 70 percent in meat production and more than a doubling in the production of fruit and vegetables in addition to substantial increases in the production of other crops from the level of 1957. Because the amount of arable land in Poland is virtually fixed, the growth of grain requirements will have to be satisfied through increased yields, which are planned to rise by over two-thirds compared with the average for 1950-55, thereby surpassing those of France and equaling those of Sweden in 1948-52. The planned rate of growth in agricultural production in Poland is similar to actual rates in Western Europe during 1951-56. Maintenance of such rates over a 15-year period, however, would be considered a remarkable achievement. Selected parts of the agricultural plan are presented in Table 5.*

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* Table 5 follows on p. 13.

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Table 5

Selected Indicators of Agricultural Development in Poland
Selected Years, 1950-57 and 1960-75 (Plan)

Commodity	Unit	1950-55 Average a/	1957 a/	1960 (Revised Plan) b/ c/	1965 (Plan) b/	1975 (Plan) d/
Crop production						
Grains	Million tons	11.3	13.5	14.2	N.A.	17.0
Potatoes	Million tons	30.8	35.1	38.1	N.A.	50.3
Sugar beets	Million tons	6.0	7.6	9.0	N.A.	12.6
Vegetables	Million tons	2.3 e/	N.A.	3.0	N.A.	6.1
Fruit	Million tons	0.3 e/	N.A.	0.8	N.A.	2.8
Crop yields						
Grains (4 grains)	Quintals per hectare	12.6	15.0	15.3	17.5	21.0
Potatoes	Quintals per hectare	118	127	140	160	193
Sugar beets	Quintals per hectare	187	225	217	236	280
Animal production						
Meat (live weight)	Thousand tons	1,703 e/	2,053	2,380	3,000	3,300 f/
Whole milk	Million cubic liters	9.6 e/	10.7	12.2	15.4	20.6

a.
b.
c.
d.
e. 1955.
f. Rough approximation.

4. Plans for the Utilization of Production.

Over the entire 15-year period of the long-term plan, the shares of accumulation* and consumption** in the national income*** are planned to change very little in comparison with those of 1955 or 1960. As indicated in Table 6, accumulation was about 30 percent of the national income (according to the Marxist definition) in 1955 and is to be the same percentage in 1975.

Table 6

Percentage Distribution of the National Income of Poland a/
Selected Years, 1950-75

Year	Accumulation	Consumption
1950	27	73
1955	30	70
1957	25	75
1960	28	72
1965	31	69
1975	30	70

a.

* Accumulation normally represents the value of gross additions to fixed assets (gross capital investment) less depreciation on these assets plus the value of net increases in inventories and stockpiles. In Table 6, however, depreciation has not been deducted.
** Consumption represents the value of purchases of goods by households, the government, and governmental institutions (hospitals and the like). It does not include the services listed below.
*** National income (according to the Marxist definition) differs from gross national product (GNP) in that it does not include the value of direct services provided to households, or to the government, and the value of passenger transport and communications used by the population. Also, it generally excludes depreciation, which, however, is included in Table 6.

The last part of the present Five Year Plan (1959-60) and the following Five Year Plan (1961-65) call for a considerable rise in the share of investments in the national income, following the drop during 1956-58. Investments are planned to increase by about 12 percent, and the national income by only 6 percent in 1959. The planned 46-percent growth of investments from 1960 to 1965 also exceeds the growth of the national income. After 1965, on the other hand, the rate of growth of investments is planned to be slightly below that of the national income.

Only moderate changes are projected in the sectoral distribution of capital investments during the period 1961-75. As seen in Table 7,* the share of agriculture remains about 14 percent; of transport and communications, about 10 percent; of trade, about 2 percent; and of housing, about 24 percent. The decline in the percent of industrial to total investments is offset primarily by a rapid rise in communal investments for such purposes as water works, gas works, and sewage. Within industry, however, a considerable shift in investment allocations is envisioned. An increased share of investments is planned for allocation to electric power generation and distribution, construction materials, light industries, and food industries, and a much smaller share, to metallurgy and metalworking. Investments in transportation are to be directed increasingly to the Polish merchant marine, automotive transport, and the electrification of railroads.

The growth of consumption in the next 7 years will be restricted not only by the rapid increase in investments but also by the expected shift from a large deficit to a moderate surplus on foreign transactions in goods and services. Valued in internal prices, the deficit on transaction in goods and services with foreign countries is to fall from about 12 billion zlotys** in 1957 to 3 billion zlotys in 1960, as existing foreign credits are used up, and will change to a surplus of 2.2 billion zlotys in 1965 in line with projected schedules of repayment. This shift of 14 billion zlotys in 8 years is equal in value to about one year's increase in personal consumption at present levels and rates.

As a result of the above factors and of the over-all rate of economic growth, the growth of consumption is planned to be much slower than that achieved in recent years. Per capita consumption increased by about 11 percent a year during 1956-57; this rate is likely to be cut in half during 1958-60, and a nearly constant rate of about 4.5 percent a year is projected between 1960 and 1975. According to Polish statements, such a rate would permit Poland to

* Table 7 follows on p. 16.
** For the rate of exchange, see Table 10, p. 22, below.

Table 7

Percentage Distribution of Capital Investments in Poland
Selected Periods, 1951-75

	1951-55 a/	1956-60 (Revised Plan) b/	1961-65 (Plan) b/	1966-70 (Plan) c/	1971-75 (Plan) c/	1961-75 (Plan)
Total investments	100.0	100.0	100.0	100.0	100.0	100.0 d/
Industry	43.7	38.8	37.8	35.1	33.5	35.0
Agriculture and forestry	13.0 e/	13.3	13.2	14.4	14.8	14.3
Construction	3.3	2.5	2.0	1.9	1.8	1.9
Transportation and communications	11.9	9.2	9.5	9.7	10.0	9.8
Trade	3.2	2.4	2.0	1.7	2.0	1.9
Urban housing	11.5	16.6	18.6	17.1	15.4	16.7
Rural housing	N.A.	6.7	6.3	8.3	8.0	7.7
Communal facilities	2.6	3.3	3.6	5.7	8.1	6.3
Social-cultural facilities	4.8	5.8	6.2	5.7	6.0	5.9
Administration and other	6.0	1.4	0.8	0.4	0.4	0.5
Investments in industry f/	100.0	100.0				100.0
Electric power	9.8	14.5				14.2
Fuels	18.6	21.6				19.2
Metals	20.4	13.3				12.8
Machinery and metalworking	17.2	12.5				9.4
Chemicals, rubber, and salt	13.3	13.1				13.5
Nonmetallic minerals	5.6	8.6				8.9
Wood and paper	3.1	3.3				3.8
Textiles, clothing, and leather	5.1	4.5				7.8
Food and fats	6.7	8.1				9.1
Other	0.2	0.5				1.3

a. Unless otherwise indicated.
b. Unless otherwise indicated.
c.
d. Rough weighted averages.
e. Including rural housing.
f.

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surpass the present level of per capita consumption in West Germany by about 20 percent in 1975.*

As might be expected, the structure of consumption is planned to change substantially in favor of consumer durables and services, at the expense of foods and alcoholic beverages. Within the foods category, per capita consumption of fruit, vegetables, oils, meat, and such items as tea and coffee is to increase rapidly whereas that of grains is to decline. These changes in the structure of consumption are, of course, similar to those experienced by most developing countries and are illustrated in Table 8.

Table 8

Distribution of Personal Consumption in Poland a/
1955 and 1975 (Plan)

Item	1955	1975 (Plan)
	Percent of Total	
Food	55.5	38.0
Alcohol	11.0	5.1
Clothing	19.3	20.4
Home furnish	2.6	3.9
Metal articl	1.5	7.9
Other goods	3.5	16.7
Services	6.6	8.0
Total	100.0	100.0
	Kilograms per Capita	
Grain products	171	130
Meat and meat products	37	54
Fats	8	13
Milk and milk products	332	550
Vegetables	69	130
Fruit and fruit products	10	63
Sugar	24	35

* Per capita consumption in Poland in 1955 is said to have been 47 percent of that of West Germany in the same year and is planned to reach 64 percent of this level in 1960.

The long-term plan calls for a substantial improvement in housing conditions as measured by a decline in the average number of persons per room in urban areas from 1.94 in 1955 to 1.75 in 1960, 1.54 in 1965, and 1.16 in 1975, close to the present ratio for West Germany. This projection, however, does not take sufficient account of the rapid deterioration of old buildings, and housing construction presently is lagging considerably behind plan. Prospects for an improvement in housing conditions before 1965 are very poor.

5. Factors Affecting Economic Growth.

a. General.

Poland's opportunities to obtain cheap gains in production are diminishing rapidly. A large part of the increase in the national income under the Six Year Plan may be attributed to shifts in the allocation of labor from low to high productivity occupations (for example, from agriculture to industry); to the existence of partially destroyed plant and equipment (especially in the Western Territories), which could be reconstructed at a fraction of the cost of equivalent new investment; to the existence of widespread unused productive capacity in industry and transportation; and to the ability to squeeze more people into existing houses and schools. These factors permitted the concentration of investments in selected areas but were no longer significant by the end of 1955. A decline in the rate of economic growth was avoided during 1956-57 as a result of large foreign credits and of the new productive capacity which sprang from the completion of large projects undertaken earlier; future prospects, however, are for a considerable increase in investment requirements per increment to the national income.

b. Utilization of Labor.

Because of a low per capita income and a rapidly growing population, Poland has had a plentiful supply of labor and a scarcity of capital. Following a decline during 1956-60, resulting from a low birthrate during wartime, the rate of growth of the population of working age (15 to 59) will rise and reach 1.6 percent during 1961-75. (See Table 9.*) Before World War II and, to a lesser extent, during the early postwar years, there was considerable overemployment in agriculture, whereas the industrial plant was utilized far below its potential capacity. It was possible, therefore, to raise industrial output by increasing the number of workers in existing industrial enterprises, and the loss of production in other sectors either was small, as in agriculture, or was assigned a very low value by the Polish government, as in services and trade.

* Table 9 follows on p. 19.

Table 9

Population and Employment in Poland Selected Years, 1950-75

	1950	1955 a/	1960 (Revised Plan) a/	1965 (Plan) a/	1975 (Plan) a/
			Million		
Total population (yearly average) b/	24.8	27.3	30.1	32.2	37.4
Population, ages 15 to 59	15.2 a/	16.4	16.9	18.1	21.2
Total employment c/	12.4 b/	13.3	14.4	15.3	17.6
Industry and handicraft	2.3 b/	2.8	3.3	3.6	4.2
Agriculture and forestry	7.0 b/	7.1	7.3	7.3	7.3
Construction	0.5 b/	0.7	0.8	0.9	1.3
Transportation and communications	0.5 b/	0.6	0.7	0.7	1.0
Trade	0.6 b/	0.7	0.9	1.1	1.6
Administration		0.4	0.4	0.4	0.4
Other services	1.4 b/	0.9	1.1	1.3	1.7
			Thousand		
Employment in socialized industry d/	2,059	2,803 e/	3,060		3,951
Electric power	58	67	65		83
Fuels	272	358	360		445
Metals	143	169	182		223
Machinery and metalworking	396	665	726		1,010
Chemicals, rubber, and salt	123	144	175		253
Nonmetallic minerals	139	221	285		429
Wood and paper	157	197	208		268
Textiles, clothing, and leather	525	571	610		670
Food and fats	209	347	380		475
Other	37	64	69		95

a. Unless otherwise indicated.
b.
c. Totals are derived from unrounded data and may not agree with the sum of their rounded components.
d.
e. 1956.

This shift occurred too rapidly and was carried too far, however, partly because of a proliferating bureaucracy. According to Polish estimates, about 20 percent of the industrial labor force in 1956-57 eventually could be dispensed with without reducing industrial production. Moreover, in spite of moderate improvements after 1950, labor productivity in industry barely had regained prewar levels in 1955-56, whereas production is estimated to have increased 1.5 times above that in the prewar period. At the same time, nonindustrial sectors, and particularly those supporting consumer welfare, had grown in importance from the point of view of the regime.

A major compaign during 1957-58 somewhat reduced overemployment in industry, and employment in services, construction, and agriculture had increased. Migration from rural to urban areas, amounting to 740,000 persons under the Six Year Plan as a whole, declined from 187,000 in 1950 to 51,000 in 1955 and probably had nearly halted by 1958. Employment in socialized trade and in private trade and handicrafts has risen. The long-term plan, which calls for only a moderate increase in industrial employment and a very large increase in employment in services and trade (state administration excluded), indicates that recent trends are likely to continue. (See Table 9.*) After 1960 the movement of workers out of agriculture is likely to be resumed but only at such a rate as to leave the agricultural labor force at its present size. Within socialized industry, the largest percentage increases in employment are planned to take place in construction materials (nonmetallic minerals), chemicals, and machine building, and the growth of labor productivity is to account for about two-thirds of the increase in production compared with less than half that in 1951-55.

c. Utilization of Capital.

The structure of Polish investments under the Six Year Plan did not provide the basis for a pattern of economic growth that could be sustained in later years. In industry, branches accounting for only 30 percent of the value of fixed assets in 1950 (metals, machine building, and chemicals) received about 51 percent of industrial investments during 1950-55. According to official estimates, the value of fixed assets (in constant prices) increased about 26 percent during this period in all industry, 10 percent in construction materials and the light and food industries, and only 7 percent in the vitally important coal mines. Moreover, most new investments in agriculture and transportation probably were offset by depreciation of old assets, and housing conditions deteriorated substantially. As was indicated above, the small magnitude of investments in many industries and in

* P. 19, above.

transportation did not prevent a rapid growth of production as long as the productive capacity of existing facilities permitted the utilization of more labor. This condition, however, reduced the amount of fixed assets per worker with detrimental effects on the growth of labor productivity in industry.

By 1955-56, it was no longer possible to continue the former priorities of investment, because as increasing shortages of fuels and raw materials occurred, pressure for higher living standards grew, and the balance of foreign payments became increasingly precarious. In consequence, the share of total investments in agriculture, housing, coal mining, and construction materials increased considerably. These changes, however, came too late to prevent a decline in coal production and a continued worsening of housing conditions. In the light and food industries, investments remained extremely small, and, in 1957-58, increased supplies of materials procured from domestic agriculture and imports began to encounter bottlenecks in processing capacity.

The desire to avoid the "disproportions" in the structure of production which led to such serious difficulties during 1956-57 and the exhaustion of opportunities for substantially increasing production through a redistribution of the labor force are expected to increase the amount of investment needed to achieve a given increase in output. Prospects for even approaching the crop yields presently achieved in Sweden and France will depend on a very large increase in capital investment and the use of fertilizer in Polish agriculture, and the high plans for meat and milk production also will require substantial investments in buildings and equipment. Much larger investments will be needed in transportation to finance the planned growth of the Polish merchant marine (from 384,000 deadweight tons in 1957 to 1,500,000 deadweight tons in 1970), the rapid development of road building and the automotive park, and the electrification of railroads. From the Communist point of view, the very large rise in investments planned in such areas as housing and public utilities brings about an increase in costs without compensating direct returns in the form of higher output. In industry, opportunities for substantially increasing the degree of utilization of existing capacity are now limited essentially to machinery and certain parts of ferrous metallurgy. Moreover, much of the production designated for rapid expansion is highly capital-intensive (for example, electric power, chemical raw materials, organic synthesis, inorganic chemicals, chemical fertilizers, petroleum refining, and cement). Finally, insufficient development of new facilities (for example, in coal mining and construction materials) or insufficient repair of old facilities (for example, in the light and food industries) under the Six Year Plan will have to be made up. These factors are expected to raise sharply investment requirements per unit of increase in industrial production after 1960. (See Table 10.) The result of planned investment policies would be a sharp rise in the value of fixed assets which, given the small projected increase in industrial employment, means also a large rise in the value of fixed assets per worker. This development, which contrasts sharply with the decline in fixed assets per worker under the Six Year Plan, would tend to promote a rapid growth of labor productivity.

Table 10

Net Capital Expenditures in Poland Needed to Increase the Value of Net Industrial Production by One Zloty a/

Selected Periods, 1950-75

	1956 Zlotys		
	1950-56	1957-60	1961-75
All socialized industry	1.12	1.25	1.83
Electric power	2.96	5.05	6.64
Fuels	2.18	15.00	8.63
Ferrous metals	2.58	5.13	3.38
Nonferrous metals	2.33	7.00	4.00
Machinery and metalworking	0.70	0.40	0.40
Chemicals, rubber, and salt	2.92	1.96	1.77
Nonmetallic minerals	0.76	1.22	3.51
Wood and paper	0.48	1.06	0.86
Textiles and clothing	0.25	0.41	1.38
Leather and shoes	0.12	0.40	0.77
Food and fats	0.50	0.67	1.69
Other	0.36	0.24	1.80

a. Zlotys may be converted to dollars at the tourist rate of exchange of 24 zlotys to US $1, but this rate may not reflect the true dollar value. Net capital expenditures represent gross capital expenditures less depreciation. The value of net production of all socialized industry is the same as value added by this industry -- that is, the value of gross production less the cost of materials. Net production in all socialized industry was distributed among industrial branches in proportion to the share of each branch in total labor costs plus depreciation allowances.

Growing requirements for capital per unit of increase in output certainly are an important reason for planning a lower rate of economic growth than was achieved in the past. Even if investments could be increased further and consumption depressed, a decline in the rate of growth of production probably could not be prevented because the capacity of the Polish economy to absorb additional investments in certain areas is limited by the supply of technical and organizational skills. The construction of too many coal mines simultaneously, for example, is said, by many Polish economists, to lead to a lengthening of the period of construction and, therefore, may not increase coal production during the period of time considered. A related problem stems from the considerable dependence of Poland on foreign trade and the necessity to balance this trade in a profitable manner. If coal production and exports cannot be expanded sufficiently, then too rapid a growth of other parts of the economy would raise import requirements without necessarily providing profitable exports.

d. <u>Policy, Technology, and Organization.</u>

The depressive effect of the factors just discussed on the future rate of economic growth may be offset partly by improvements in technology, organization, and economic policy. According to Polish statements, technological innovations, which may save both labor and capital, and the improvements in efficiency which the fuller development of the "new economic model" may bring about have not been taken into account fully in the formulation of the long-term plan. A liberal policy regarding agriculture and handicrafts also could bring important gains. But Communist ideology and Soviet influence probably will prevent a full utilization of opportunities of a technological, organizational, or policy nature.

Under the Six Year Plan, Poland undertook to produce a wide variety of new products and more complex and specialized equipment but was not permitted to acquire the best Western or even Soviet technology, and the quality of the machinery and equipment produced in Poland continued to be generally low by world standards. Moreover, improvements in engineering often did not bring about improvements in performance because of a shortage of engineers and poor organization. The lowest level of organizational and technical skill probably was found in construction enterprises, as is illustrated by the extremely long construction periods of most projects.

An accelerated rate of technological advance in the future probably will result from the growing experience of the Poles with hitherto unfamiliar processes of production and construction, although large-scale development of such unfamiliar industrial branches as chemical synthesis, aluminum, and automobiles may cause serious problems. There are numerous opportunities for achieving economies of large-scale production, particularly in the newer industries. Some technical benefits should stem also from the increased economic contacts of Poland with the West since 1956. Finally, certain technological advantages may accrue to Poland through the medium of intra-Bloc cooperation under CEMA, particularly in the machinery industries, and through related bilateral agreements with the USSR, East Germany, and Czechoslovakia.

Communist methods of planning, organization, and management has undoubtedly had a highly detrimental effect on the efficiency of factors of production in Poland under the Six Year Plan. Considerable waste resulted not only from basic errors in the allocation of resources but also from the manner in which state economic policies were implemented. The industrial structure of Poland, in which medium- and small-scale enterprises predominated, was ill-suited to centralized state control which greatly reduced the freedom of choice of the enterprise manager and caused a multiplication of otherwise unnecessary bureaucratic personnel. Moreover, there was general unfamiliarity with and widespread opposition to an economic system patterned after that of the USSR. Finally, because of the very limited range of resources of Poland and the consequent dependence of the nation on foreign trade, even small errors in economic planning and management probably had more serious effects than in a large and diversified country such as the USSR.

Reforms in the system of planning and management were originated in 1957 under the heading of the "New Polish Economic Model." The basic characteristic of the "new economic model" was the substitution of financial incentives for executive orders in inducing enterprise managers to carry out the state plan in the most efficient way possible. The number of plan indices was sharply reduced, as was the number of economic ministries; greater freedom of choice was given to the enterprise manager with respect to assortment of products, small investments, and selection of buyers and sellers. Production plans were set more conservatively than before, and bonuses to managers and workers were based to an increasing extent on raising profits or on reducing unit costs. At the same time, some improvements were effected in the system of prices. A substantial rise in prices of producer goods in 1956 and further adjustments in 1957 considerably reduced the need to subsidize state industry from the state budget. Selected price increases combined with larger supplies of consumer goods appear to have resulted in an approximate over-all balance of supply and demand in the consumer market. Prices of producer goods, however, remain a very poor basis for rational economic calculations because they exclude such elements of cost as rent and interest, and the system of financial incentives cannot work efficiently unless prices are made more meaningful than they are at present. In the consumer sector, house rents continue to be far below even the cost of house maintenance.

Prospects for further organizational changes in the future are uncertain. Further changes in the system of prices and wages are scheduled to begin in 1959, but are likely to be introduced slowly, and almost certainly will not create as much economic flexibility and decentralization of decision-making as the more liberal Polish economists would have wished. The "new economic model" appears to be a compromise between the old line bureaucrats whose concern is exclusively with direct state planning and control and the "liberals" who believe that the state should set only the most general economic indicators, letting the detailed operation of the economy work itself out in a free market. The bureaucrats remain in control but are modifying the system with a view to avoiding the worst errors of the past. Although the reforms made thus far are certainly in the right direction and should have some favorable effect on the "efficiency" of the economy, it is unlikely that many of the potential gains in efficiency, which a more liberal policy probably would bring about, will be achieved.

Communist policy toward private agriculture, handicrafts, and trade under the Six Year Plan was inspired primarily by political considerations and, on balance, had unfavorable economic effects. The attempt to force peasants into collective farms through various forms of discrimination did not succeed and, in addition, resulted in lower production and even lower provisions of quality foods for urban areas. This policy, however, did increase the migration of labor from agriculture to industry which, as was seen above, tended to raise the national income for a few years. At the same time, private handicraft and retail trade establishments either were replaced by state-owned establishments using the same methods of production but otherwise less efficient, less conveniently located, and less responsive to consumer demands or not replaced at all. To some extent, this policy reflected a planned shift in the allocation of labor but also resulted in inefficient utilization of labor within the handicraft sector.

The new agricultural policy of 1956-57, in which forceful collectivization was abandoned and the status of the private farmer improved, was very successful, and there is no indication of any basic change in this policy in the near future. Polish spokesmen argue that, although collectivization remains the final goal and will be encouraged, at first in less developed forms such as agricultural circles, the Polish economy cannot stand the stagnation or drop in agricultural production which a return to more forceful methods probably would bring about. The present structure of agricultural holdings in which very small farms predominate, however, is not conducive to a rapid improvement in agricultural methods, and the Polish regime probably will not permit larger scale development of medium- and large-sized private farms.

In the case of private handicrafts and trade, the expansion of employment which took place during 1956-57 apparently has been almost halted, and there is no indication that a large expansion of these areas is considered under the long-term plan, except possibly for private construction and small-scale production of construction materials. Because a liberal policy toward small private enterprise would bring about a considerable improvement in consumer welfare with very small investments, it is probable that government policy to limit sharply the growth of private industry is, in this case, a significant deterrent to economic development, although probably not as much as in the past.

6. Foreign Economic Relations.

An assumption that the economy of Poland will remain predominantly oriented toward the Soviet Bloc appears to underlie the long-term plan. Most probably, the plan was written in Warsaw rather than in Moscow and seems to reflect primarily Polish needs and scarcities, but implicit in it are restrictions stemming from Poland's membership in the Soviet Bloc and from the values of its Communist regime. The first limit concerns the degree to which the government can relinquish its control over economic activity. As was indicated in the previous section, a number of reforms of the economic system are being undertaken, motivated by considerations of economic efficiency, but these reforms almost certainly will not include a large expansion of small-scale private enterprise outside agriculture and probably will entail only a limited dependence of state enterprises on consumer preferences.

The second limit concerns the pattern of economic development. It is clear that the USSR is willing to support a continued, although reduced, expansion of industries which, partly at Soviet instigation, had been assigned the highest priorities in the past -- machinery and steel. This support takes the form of long-term agreements to supply raw materials for these industries (iron ore, manganese, and petroleum) and of a willingness to purchase rapidly increasing amounts of their finished products (especially machinery), which would not easily find markets elsewhere, from Poland, or to encourage CEMA cooperation in this area. Without this support, part of the Polish machinery and metallurgical industry might have to shut down, and a further shift of investments and other resources to chemicals and light industry probably would take place. These policies, of course, continue the economic dependence of Poland on the USSR but probably are not considered to be economically disadvantageous to Poland, at least in the short run, because they offer the Poles an opportunity to operate these industries profitably. Recommendations of the USSR and of CEMA certainly have been taken into account in drafting the long-term plan for Poland, although it is unlikely that, at this stage, these ideas represent more than general guide lines allowing a great deal of flexibility.

The planned structure of production restricts Poland's ability to shift the geographic structure of its foreign trade from the Soviet Bloc to the Free World. Some shift of this sort is possible, but the general pattern of the Polish economy would make it very difficult. During the next few years, and in the absence of new Western credits, the share of the Soviet Bloc in trade with Poland probably will rise or stay at about the present figure of 60 percent. This situation is a result largely of the fact that the bulk of the expected increase in exports is to consist of machinery and equipment, which are, for the most part, not salable in the West. In time, Poland may expand exports of processed foods to the West and may develop exports of specialized consumer manufactures, opportunities for which were ignored in the past. Improvements in quality and assortment may raise the demand for Polish machinery outside the Soviet Bloc, particularly in underdeveloped countries, and more Western exchange should be earned by the Polish merchant marine. But the trend of Polish economic development and its probable effect on the over-all commodity distribution of foreign trade tend to tie Poland to the Soviet Bloc more closely than before. As seen in Table 11,* the share of coal and coke, which in the past were the principal source of Western currency to Poland, in total Polish exports is expected to decline sharply from 34 percent in 1957 to about 15 percent in 1975. According to Polish analyses, even the present moderate plan for production of coal is somewhat strained because of long construction periods for new mines and limited capabilities to raise investments. Under the circumstances, growing domestic demand for coal probably will not permit any growth in coal exports, and, in any event, a continued shift in use of fuel from coal to petroleum and atomic power in Western Europe may limit severely the demand for Polish coal in the long run. Exports of machinery and equipment, on the other hand, are to rise from about 20 percent to between one-third and 40 percent of total exports between 1957 and 1975. Such developments as the rapidly planned increase in production of refined petroleum and petro-chemicals, based on Soviet supplies of crude petroleum funneled through a new pipeline, and various types of economic cooperation under CEMA (in the form of specialization of existing plants or of coordinated investment programs) also tend to tie Poland to the Soviet Bloc.

* Table 11 follows on p. 28.

Table 11

Percentage Distribution of the Foreign Trade of Poland a/
1957 and 1975 (Plan)

Foreign Trade	1957	1975 (Plan)
Imports	100	100
Machinery and equipment	25	19
Materials for heavy industry	22	27
Materials for light industry	23	20
Materials for agriculture	2	4
Fuels	6	10
Food	16	16
Industrial consumer goods	6	4
Exports	100	100
Machinery and equipment	22	38
Coal and coke	34	15
Other materials	22	24
Food	14	18
Industrial consumer goods	8	5

a.

7. Implications of the Long-Term Plan.

Only the most tentative and generalized answers can be given to the three basic questions raised by the long-term plan: Are the principal goals of the plan feasible? Would a plan of a different structure increase the probability of achieving these goals? Is the economic evolution of the Polish economy, as provided for under the long-term plan, advantageous or disadvantageous to US interests?

Insofar as the over-all rate of economic growth is concerned, the plan does not appear to be unrealistic. This judgment is based on past achievements of the Polish economy, on the factors of production expected to be available, and on the experience of other countries. Although some of the plans for particular sectors and commodities (for example, agriculture, housing, and automobiles) are questionable, other plans could be exceeded. Particularly difficult to predict is the growth of technology and the evolution of economic organization. In the light of past technological experience the plans for coal and cement production, for example, could not be fulfilled, but improvements in technology are possible. Another problem is that of popular attitudes. The plan for agriculture implicitly assumes not only the provision of sufficient investments and industrial inputs but also a considerable change in peasant attitudes and know-how. In spite of numerous reservations, however, the long-term plan, in its broad structure, does not appear to be inconsistent with the nation's production possibilities.

Whether the long-term plan in its present form makes the fullest possible use of the productive capabilities of the economy of Poland depends on political assumptions. A plan calling for a large increase in small-scale private enterprise outside agriculture almost certainly would provide for a better use of available resources than does the present plan. Similarly, orientation of the foreign trade of Poland to the West might, in the long run, lead to a more efficient economy through a different allocation of resources. (In the short run, probably there would be economic losses because of the difficulty of developing products salable on Western markets.) On the assumption that neither of the above circumstances is possible politically, however, the general allocation of resources does not appear to be unreasonable. In this connection, the economic development of the country since 1949, and even some of the errors committed by the regime in allocating resources, have certainly changed the relative profitability of various types of production, or at least will facilitate a change in relative profitabilities in the future. Under the Six Year Plan, it was clearly unprofitable to invest on a large scale in metallurgy and machine building at the expense of coal, construction materials, and light industry, but these very investments now permit a rapid rise in machinery output at only small additional investment cost, and the Western market for Polish coal is smaller than it was under the Six Year Plan. Plans for a rapid expansion of machinery production and exports may include a large element of wishful thinking as to prospects for improvements in quality and technology, but there is no doubt that Poland is now in a far better position that in 1949-50 to make this production pay off Moreover, some of the worst errors of the past are being remedied through increased emphasis on areas which previously had the lowest priorities, through the growing prominence of chemicals which, except for petroleum, seem to be based on adequate domestic resources and a reasonable view of future demands, and through greater attention to light industry.

From the point of view of US interests, the long-term plan continues and possibly reinforces the economic links of Poland with the Soviet Bloc and particularly the USSR. On the other hand, considering economic

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trends of the Soviet Bloc as a whole and the narrowness of the zone in which the assertion of national differences may be permitted, the Polish long-term plan is a significant expression of Poland's national interest. It remains to be seen whether Soviet pressure will force future modifications in the plan.

APPENDIX

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

Source of Information	Information
Doc. - Documentary	
A - Completely reliable	1 - Confirmed by other sources
B - Usually reliable	2 - Probably true
C - Fairly reliable	3 - Possibly true
D - Not usually reliable	4 - Doubtful
E - Not reliable	5 - Probably false
F - Cannot be judged	6 - Cannot be judged

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this memorandum. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

Except for finished intelligence, all sources used in this memorandum are evaluated Documentary unless otherwise indicated.

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